



STOCK EXCHANGE LISTINGS: NEW ZEALAND (MCY) / AUSTRALIA (MCY)

## NEWS RELEASE

# Governance Roadshow Presentation – December 2016

5 December 2016

Mercury will present at a series of investor meetings during December 2016.

The presentation materials are attached.

### ENDS

For further information:

David Glendining  
Head of Communications  
T 0272 105 337

Tim Thompson  
Investor Relations/Treasury  
T 0275 173 470

### ABOUT MERCURY NZ LIMITED

At Mercury we're thinking boldly about the possibilities with energy and inspiring New Zealanders with our renewable electricity and ideas – making energy wonderful. Energy from Mercury's hydro and geothermal stations will power a brighter future for our country.

Visit us at: [www.mercury.co.nz](http://www.mercury.co.nz)



# Mercury

## Governance Roadshow

**JOAN WITHERS**  
Chair

**JAMES MILLER**  
Director

5 December 2016



# DISCLAIMER

This presentation has been prepared by Mercury NZ Limited and its group of companies (“Company”) for informational purposes. This disclaimer applies to this document and the verbal or written comments of any person presenting it.

Information in this presentation has been prepared by the Company with due care and attention. However, neither the Company nor any of its directors, employees, shareholders nor any other person gives any warranties or representations (express or implied) as to the accuracy or completeness of this information. None of the Company, its directors, employees, shareholders or any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, and uncertainties, including material adverse events, significant one-off expenses and other unforeseeable circumstances, such as, without limitation, hydrological conditions. There is no assurance that results contemplated in any of these projections and forward-looking statements will be realised, nor is there any assurance that the expectations, estimates and assumptions underpinning those projections or forward looking statements are reasonable. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release or to provide you with further information about the Company.

A number of non-GAAP financial measures are used in this presentation. You should not consider any of these in isolation from, or as a substitute for, the information provided in the audited consolidated financial statements, which are available at [www.mercury.co.nz](http://www.mercury.co.nz).

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. The presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any security and may not be relied upon in connection with the purchase or sale of any security. Nothing in this presentation constitutes legal, financial, tax or other advice.



# MERCURY AT A GLANCE

Coming together under one brand,

## MERCURY

Bringing together our heritage and our customer-driven innovation



## INTEGRATED ELECTRICITY GENERATOR / RETAILER

with average annual generation of 6,800GWh close to major load centres and with more than 380,000 customers

## TOP 10

### NZX LISTED COMPANY

with market capitalisation of \$4.0b and debt of \$1.1b

## 100%

### RENEWABLE GENERATION

with complementary base-load geothermal and peaking hydro generation, as well as in-house solar capability

## 90,000

### OWNERS WITH CROWN AS MAJORITY OWNER

with independent Board of Directors

## STRONG CASH FLOWS

from diversified customer sales and low cost renewable generation





## OUR PURPOSE

**Inspiring New Zealanders to enjoy energy in more wonderful ways**

### **Inspiring New Zealanders**

We want to inspire New Zealanders by delivering value, innovation and outstanding experiences

### **To enjoy energy**

We want our customers to enjoy what energy does for them and choose Mercury because we make a positive difference in their lives

### **In more wonderful ways**

We will bring new technology and ideas to create wonderful experiences for our customers in a uniquely New Zealand context



## OUR GOAL

**To be New Zealand's leading energy brand**



## OUR STRATEGY

**Mercury will create long term value for our owners by:**

①

### **Delivering customer advocacy**

Outstanding customer experience

Leading digital offerings

Culture-driven innovation

②

### **Leveraging core strengths**

Operational efficiency

Astute portfolio management

Efficient capital allocation

③

### **Delivering sustainable growth**

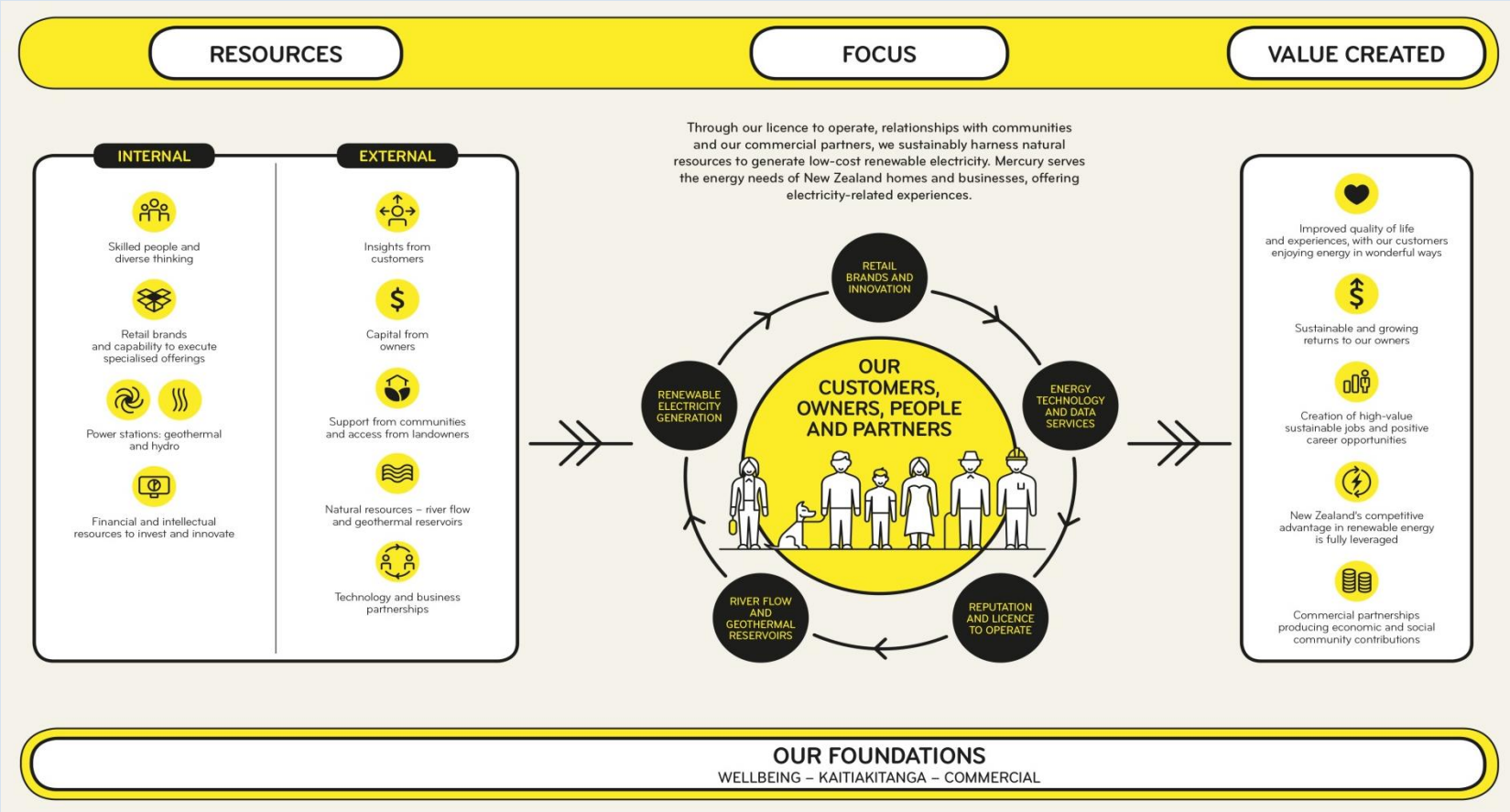
Executing relevant strategic opportunities

Being ready for domestic growth

Embracing emerging technologies



# HOW MERCURY SUSTAINS AND GROWS VALUE



## RESOURCES

### INTERNAL



Skilled people and diverse thinking



Retail brands and capability to execute specialised offerings



Power stations: geothermal and hydro



Financial and intellectual resources to invest and innovate

### EXTERNAL



Insights from customers



Capital from owners



Support from communities and access from landowners



Natural resources – river flow and geothermal reservoirs



Technology and business partnerships

## FOCUS

Through our licence to operate, relationships with communities and our commercial partners, we sustainably harness natural resources to generate low-cost renewable electricity. Mercury serves the energy needs of New Zealand homes and businesses, offering electricity-related experiences.

## VALUE CREATED



Improved quality of life and experiences, with our customers enjoying energy in wonderful ways



Sustainable and growing returns to our owners



Creation of high-value sustainable jobs and positive career opportunities



New Zealand's competitive advantage in renewable energy is fully leveraged



Commercial partnerships producing economic and social community contributions

## OUR FOUNDATIONS

WELLBEING – KAITIAKITANGA – COMMERCIAL

## PROGRESS ON STRATEGY – ONE BRAND

- > Move to one brand, Mercury, on 29 July 2016
- > Significant strategic step – collective energy and focus behind a single brand for the first time
- > New brand brings together near century-long heritage with our customer-driven innovation
- > Mercury NZ Limited (“MCY”)
  - > Same fundamental underlying strengths
  - > Long-term thinking at company’s core
  - > Evolution of ambition and strategy



Chair, Joan Withers & Chief Executive, Fraser Whineray  
Auckland, New Zealand 29 July 2016



# PROGRESS ON STRATEGY

- > Delivering customer advocacy
  - > Rewarding customer loyalty through Airpoints and Free Power Days
  - > Making it easier for customers with a new customer bill
- > Leveraging core strengths
  - > Major projects underway to increase the efficiency, availability and reliability of the Waikato Hydro System
- > Delivering sustainable growth
  - > Executing relevant strategic opportunities like the acquisition of in-house solar/storage installation capability and launch of Mercury Solar
  - > Embracing new technology and enabling customer choice with E-bikes and our country's 'Electric Highway'

**Creating long  
term value for  
our owners**



- > Increased customer satisfaction
  - > 62% of Mercury customers are highly satisfied versus 47% for other major brands<sup>1</sup>
- > Lower customer churn
  - > Churn for 3 months to 31 October was 1.0% below other major retailers (5.3%)
  - > 5,900 net customer gains for 3 months to 31 October
- > Strong uptake of product offerings
  - > Over 94,000 Airpoints registrations after only 1 month
  - > Nearly 100,000 customers enjoyed the latest Free Power Day campaign
  - > 117,000 residential customer and 25,000 small commercial customers are on fixed-price contracts

<sup>1</sup> Based on Mercury's monthly survey for the 3 months to 31 October 2016





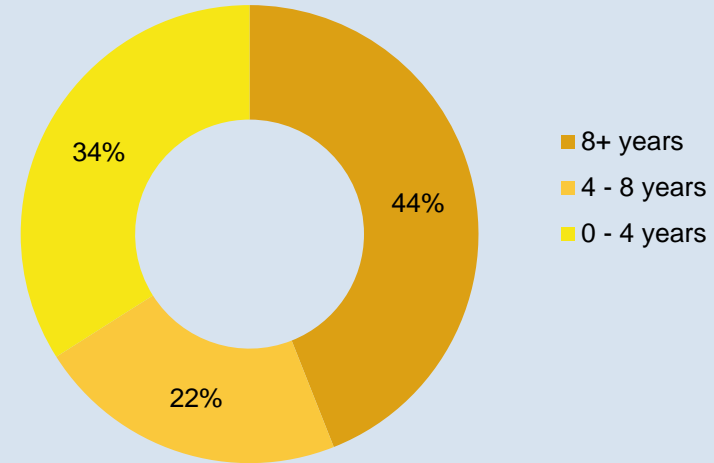
# LEADERSHIP TEAM



# LEADERSHIP TEAM

- > Composition of Leadership Team aligned with strategic priorities
  - > Appointments of Chief Marketing Officer and GM Digital Services in June 2016 to deliver greater product and service innovation to customers
- > Range of tenures across Leadership Team balances retention of institutional knowledge with diverse perspectives and capabilities
- > HRC provides thought partnership on Leadership Team appointments and performance measurement

**LEADERSHIP TEAM TENURE IN COMPANY**



## FRASER WHINERAY – CHIEF EXECUTIVE

- > Joined Mercury in 2008; Chief Executive since September 2014
- > Active and high-profile role in advocacy for New Zealand energy sector:
  - > Showcasing value and benefits for consumers
  - > Building political and regulatory support for desirable market outcomes
  - > Championing the electrification of transport, with focus on 'real' sustainability
- > Key strategic milestones during tenure:
  - > Consolidation of brand platforms with successful Mercury brand launch
    - Alignment for customers, employees, investors and business partners
    - Supporting customer advocacy and strategic growth opportunities
  - > Executive restructure with improved focus on performance
  - > Creation of partnerships supporting customer loyalty
  - > Acquisition of leading solar business; Mercury Solar offering and R&D Centre
  - > Closure of high-cost thermal plant, Southdown
  - > Exit of international geothermal development

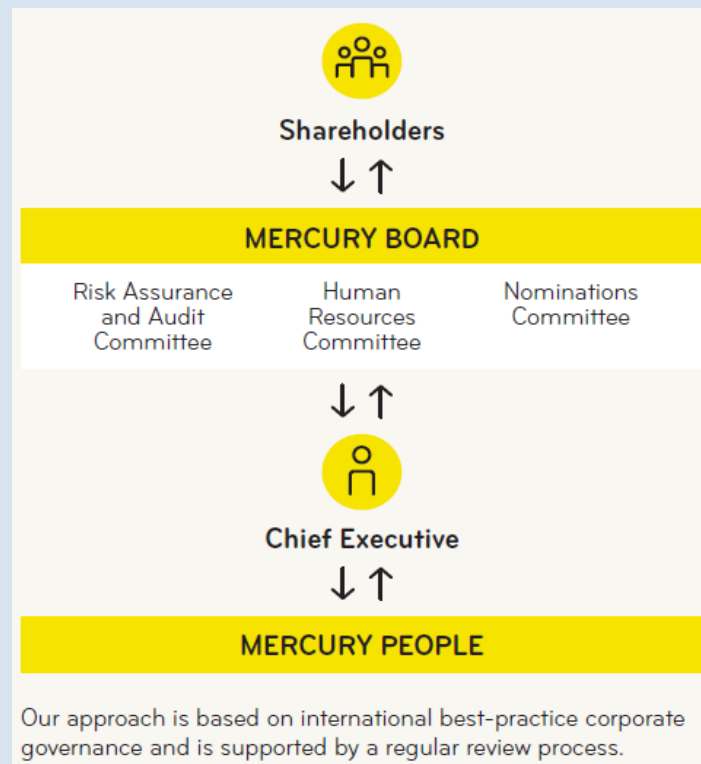


# BOARD OF DIRECTORS



# BOARD OF DIRECTORS

- > Committed to maintaining the highest standards of business behaviour and accountability
- > Regular reviews of the Company's governance structures to ensure consistent best practice (NZX, ASX and international best practice recommendations)
- > Developing the pipeline – on-going support for the Institute of Directors Future Directors Programme
- > Key governance focus for 2016 included:
  - > Board succession
  - > Strategy evolution
  - > Approval of the closure of Southdown and acquisition of What Power Crisis solar business



# BOARD OF DIRECTORS

## Skills matrix / gaps and strengths

- > Derived from business foundations and future directions
- > Balancing industry knowledge with management
- > Ensure diversity of skills/approach
- > Assessed to hold highly relevant capability

## Comprehensive review process

- > External and independent
- > Full review in 2014 and pulse checks in 2015 and 2016
- > Focus on developing optimal dynamic
- > Managing workload and independence

## Ongoing professional development

- > Keeping up to date on core skills and emerging trends
- > Continuing and extending learning agenda
- > Tailored to address gaps identified in skills matrix

---

## Succession planning

- > Consider appropriate tenure and orderly transition
- > Clear pathway being laid for cohesive Chair and Committee chair transitions



# ESG

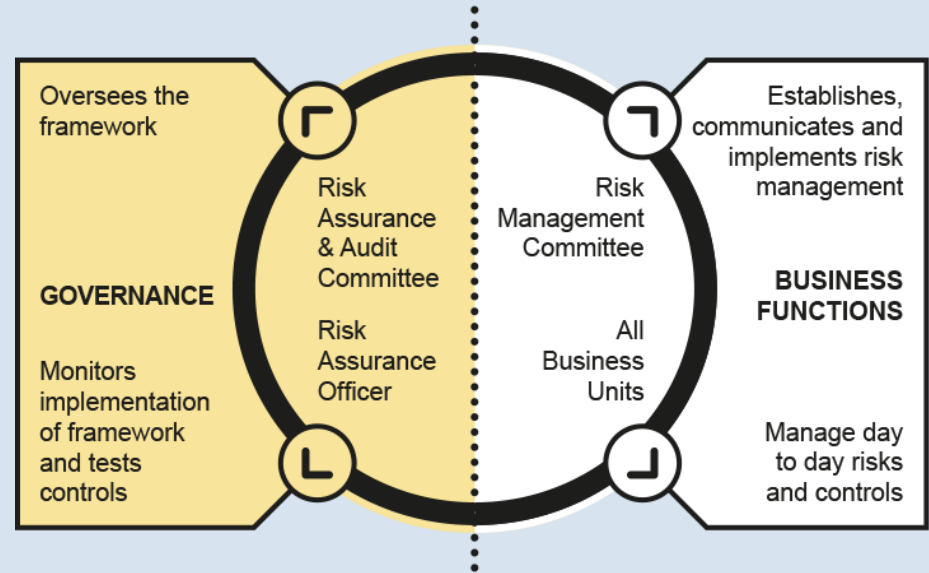
- > Board and management committed to developing reporting on factors material to the business, its ultra-long term sustainability and prosperity
- > Core ESG factors make up what we recognise as the foundations of the business – wellbeing (of our people and customers) and kaitiakitanga (custodianship of our environment)
- > Assessing reporting process alignment to stakeholder expectations - changes made for FY16 Annual Report part of evolution in this area
- > Working to provide greater insight into how we:
  - > incorporate ESG factors into our strategy, governance and operations
  - > manage ESG risks and opportunities
- > Actively involved in national discussions on key environmental issues material to our business – water and emissions
- > Further details on key social issues (safety, our people and remuneration) provided in this pack





# RISK MANAGEMENT

- > Comprehensive approach encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks from internal and external sources
- > Thematic topics examined in 2016:
  - > Compliance processes
  - > Contract management
  - > Well integrity management
- > Key stakeholders rate us well - *“They clearly understand in great depth what they are doing and manage the risks as I’d hoped for.”* – feedback from an international insurance underwriter post site visits in February 2016



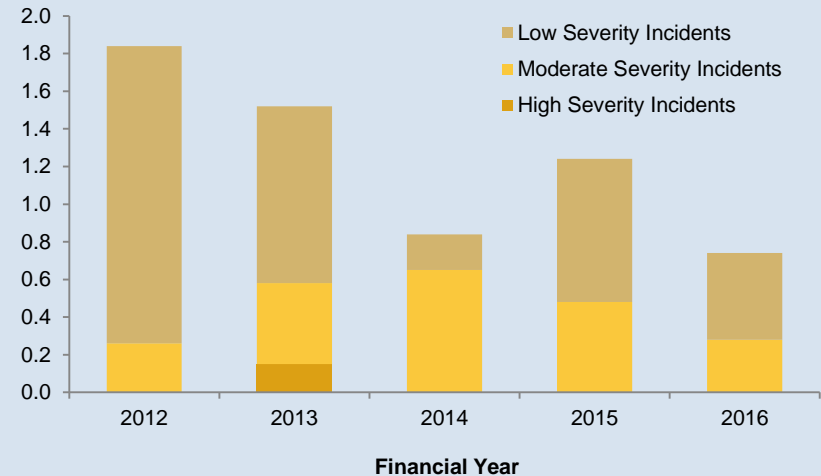


# HEALTH & SAFETY

- > Zero harm is our well-being goal
- > FY2016 demonstrates continued improvement in achieving our goal
  - > no high severity incidents involving employees, contractors or visitors on Mercury controlled sites
  - > reduction of lost time (moderate severity) incidents from 5 to 3
  - > continued high engagement survey rating reflecting commitment to the health and safety of Mercury's people
- > One high severity incident in FY2017 to date
  - > A contractor was injured in an office stair fall
- > Collaboration to improve industry-wide safety with initiatives such as the industry forum - StayLive

## TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

(per 200,000 hours; includes onsite employees and contractors)



# PEOPLE

- > We are investing in leveraging and building capability; over 2016 we delivered
  - > A company-wide foundation management programme
  - > Unconscious bias training for leaders
- > Depth of succession talent utilised for internal opportunities
- > Diversity and inclusion is an integral part of Mercury's culture - our approach focuses on gender, age, ethnicity, inclusion and flexibility
- > Engagement responses confirm that this commitment is having an impact:
  - > Score of 80.8% on *"All employees in this organisation are treated fairly, regardless of age, ethnicity, gender or physical capabilities"*
  - > Score of 93.1% on *"I have the freedom and flexibility to do my job effectively"*



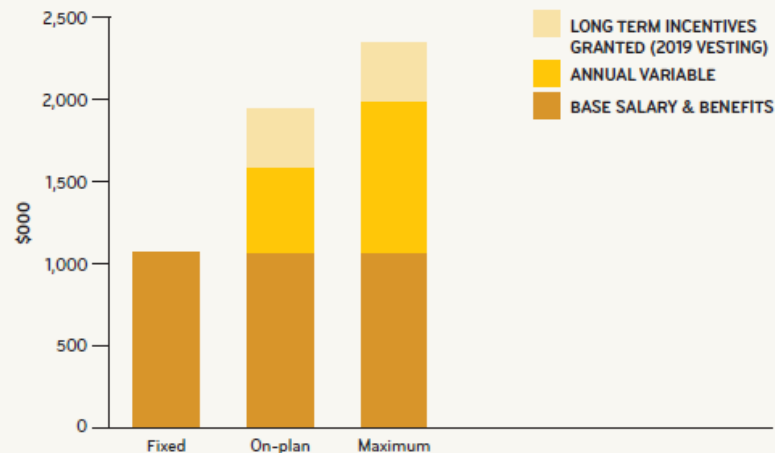
# REMUNERATION

- > Improved disclosure in line with NZSA recommendations
- > Scorecard for variable component covers:

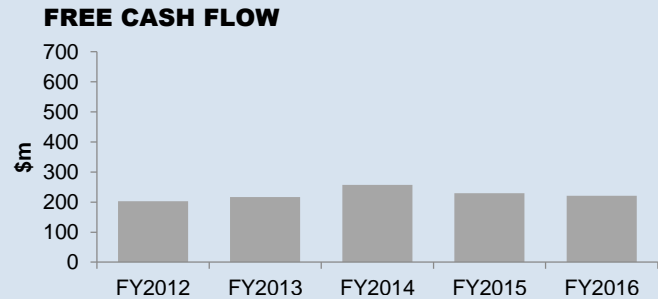
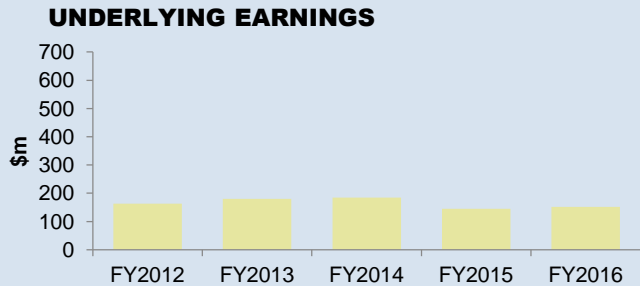
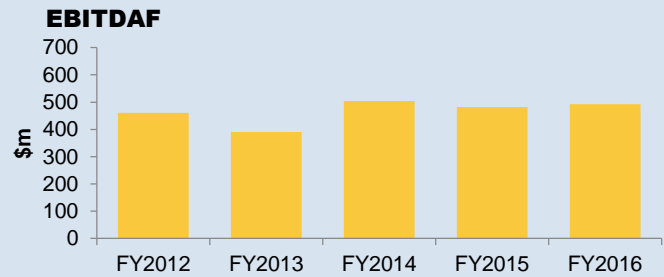
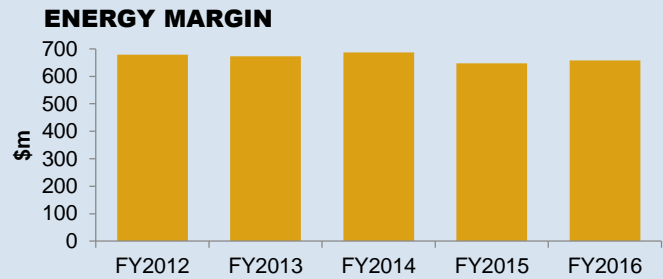
Target area	Weighting %
Financial: EBITDAF	30
Customer Satisfaction	30
Health & Safety	20
Employee Engagement	20

- > New Zealand REM incorporates balanced incentives, at an order of magnitude different to international markets

Chief Executive remuneration performance pay for FY2017



# FINANCIAL TRACK RECORD



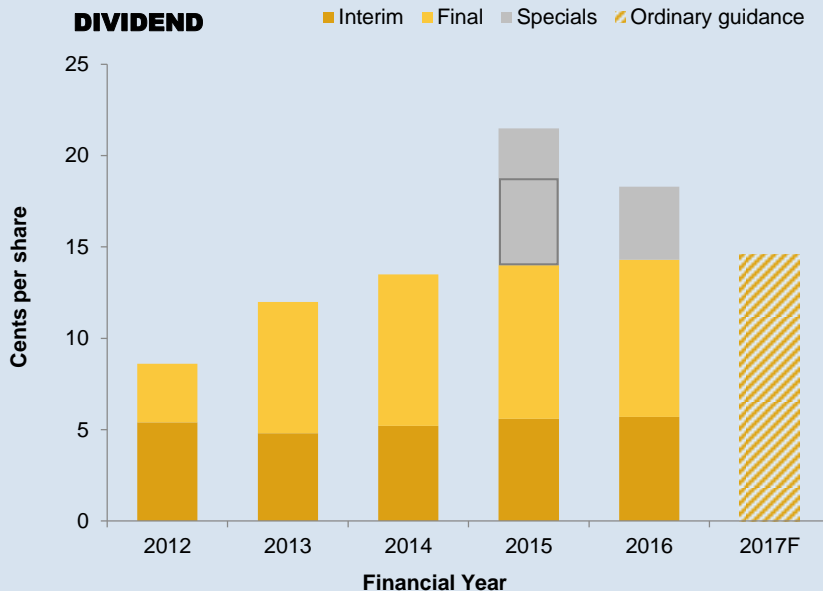
# CAPITAL MANAGEMENT

<b>FREE CASH FLOW (FCF)</b> Net Cash Flow from Operating Activities less normalised stay-in-business capital expenditure			
BALANCE SHEET	ORDINARY DIVIDENDS	INVESTMENT IN GROWTH	SPECIAL DISTRIBUTIONS
Key ratio for stand alone S&P rating of 'bbb' is Debt/EBITDAF between 2.0x and 2.8x	>	>	Investment in growth evaluated against all other competing uses of capital
Debt/EBITDAF 2.0x at 30 June 2016	>	>	FY2016 un-imputed special dividend of 4.0cps, increasing total dividends to 100% of FCF and proceeds from land sales



# DIVIDENDS

- > FY2016 fully imputed ordinary final dividend of 8.6cps
  - > Ordinary dividend for FY2016 up 2% to 14.3cps, in line with guidance
- > FY2016 non-imputed special dividend of 4.0cps
  - > Increasing total distributions to 100% of Free Cash Flow; and
  - > Distributing proceeds from land sales within FY2015 and FY2016
- > FY2017 ordinary dividend guidance is an increase of 2% to 14.6cps, the sixth year of consecutive ordinary dividend growth

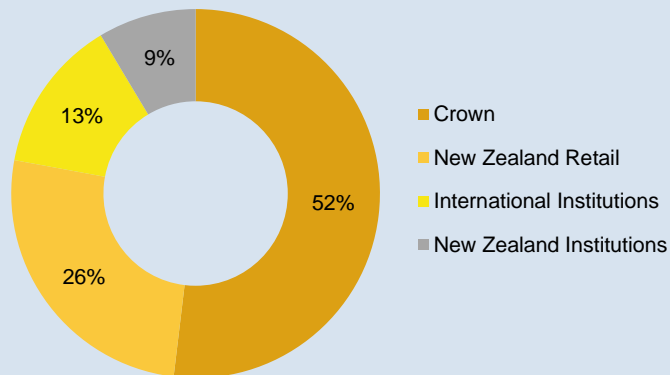


# OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > Currently more than 90,000 shareholders with Crown as majority owner
  - > Public Finance Act and Company's constitution require at least 51% Crown ownership
  - > No other person may hold more than 10% of shares
- > Seven independent Directors - no direct Crown Board representation

## MERCURY SHARE REGISTER

May 2013



## MERCURY SHARE REGISTER

November 2016

